NCA

VOC FOR PGM/FN
BACKGROUNDER NO. 5-6325
DOUGLAS ROBERTS/CAIRO

DECEMBER 13, 1978

OPEC PREVIEW

ANNCR:

OIL MINISTERS FROM THE THIRETEEN-MEMBER ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES -- OPEC -- MEET LATER THIS WEEK IN ABU DHABI FOR TALKS THAT ARE EXPECTED TO LEAD TO AN INCREASE IN OIL PRICES. DOUBLAS ROBERTS SENT THIS BACKGROUND REPORT.

VOICE:

EVERY YEAR, AT ABOUT THIS TIME, A HORDE OF REPORTERS DESCENDS ON SOME WORLD CAPITAL FOR OPEC'S ANNUAL PRICE-FIXING CONFERENCE, AND FOR MANY OF THOSE REPORTERS, THE STORY ALL COMES DOWN TO ONE NUMBER -- HOW MUCH WILL OIL PRICES BE INCREASED? EVER SINCE PRICES QUADRUPLED AFTER THE NINETEEN SEVENTY-THREE MIDDLE EAST WAR, OPEC MEETINGS HAVE BEEN THE FOCUS OF WORLDWIDE ATTENTION -- SOMETIMES MORE THAN EVEN OPEC MEMBER STATES WOULD LIKE.

IN THE DAYS AND WEEKS BEFORE THIS YEAR'S CONFERENCE, LIKE ITS PREDECESSORS, GOVERNMENT OFFICIALS FROM VIRTUALLY ALL OF OPEC'S THIRTEEN MEMBER STATES HAVE BEEN REPEATEDLY ASKED THE STANDARD QUESTION -- WILL PRICES BE PUSHED UP THIS YEAR? AND IF SO, BY HOW MUCH? THE REPLIES ILLUSTRATE WHY THE MEETING IS NEEDED. SOME MEMBER STATES WANT AN INCREASE OF TWENTY PERCENT OR MORE, OTHERS FAVOR A FAR SMALLER HIKE. THE CARTER'S LARGEST PRODUCER, SAUDI ARABIA, IS OFFICIALLY SEEKING A CONTINUATION OF THE TWO YEAR PRICE FREEZE, BUT SAUDI OFFICIALS ACKNOWLEDGE THAT THAT POSITION WILL BE DIFFICULT TO MAINTAIN IN THE FACE OF DEMANDS FROM THE ORGANIZATION'S OTHER MEMBER STATES. ENVOYS FROM OPEC MEMBERS HAVE BEEN DISPATCHED ACROSS

THREE CONTINENTS OVER THE PAST FEW WEEKS IN AN ATTEMPT TO HARMONIZE POSITIONS IN ADVANCE OF THE ABU DHABI MEETING.

THE ISSUES INVOLVED IN DETERMINING A PRICE HIKE ARE INCREDIBLY COMPLEX. SOME OPEC MEMBERS COMPLAIN THAT OVER THE PAST TWO YEARS, WORLDWIDE INFLATION AND THE DECLINING VALUE OF THE U.S. DOLLAR HAVE CUT BACK THE REAL VALUE OF THEIR OIL REVENUE BY THIRTY PERCENT OR MORE. ON THE OTHER HAND, OFFICIALS FROM WESTERN OIL IMPORTING NATIONS SAY THAT A PRICE HIKE NOW WOULD ONLY HEIGHTEN INFLATION, INCREASE PRESSURE ON THE DOLLAR, AND CONTRIBUTE TO THE VERY PROBLEMS OPEC MEMBERS ARE COMPLAINING ABOUT.

ONE PARTIAL SOLUTION ENVISAGED BY SOME OPEC COUNTRIES IS TO REPLACE THE DOLLAR WITH WHAT IS KNOWN AS A "BASKET" OF WORLD CURRENCIES FOR DETERMINING OIL PRICES. THE IDEA EMERGED FROM AN OPEC COMMITTEE OF EXPERTS BEFORE PRESIDENT CARTER ANNOUNCED THE LATEST AMERICAN MOVES TO STRENGTHEN THE VALUE OF THE U.S. CURRENCY -- MOVES THAT WERE WARMLY WELCOMED BY A NUMBER OF OIL-PRODUCING NATIONS.

SAUDI ARABIA AND SEVERAL OTHER MODERATE OPEC MEMBERS ARE ON THE RECORD AS STRONGLY OPPOSED TO ANY MOVE AWAY FROM THE DOLLAR IN THE DETERMINATION OF OIL PRICES. BUT THE IDEA PERSISTS AND IS REPORTEDLY FAVORED BY A SIGNIFICANT MINORITY WITHIN THE ORGANIZATION. MANY ANALYSTS ARE NOW PREDICTING THAT THE UPCOMING CONFERENCE WILL DECIDE ON A BRIGHT SIDE OF TEN PERCENT OR LESS AND THIS, THE EXPERTS SAY, WILL PROBABLY BE ENFORCED IN STAGES OR INCREMENTS DURING THE COURSE OF THE COMING YEAR. BUT THE FINAL WORD ON OIL PRICES WILL HAVE TO AWAIT THE OUTCOME OF THIS WEEKEND'S MEETING IN ABU DHABI.

WJL/RD